VZCZCXRO9782
PP RUEHBZ RUEHDU RUEHGI RUEHJO RUEHMA RUEHMR RUEHPA RUEHRN RUEHTRO
DE RUEHDK #1246/01 3050741
ZNR UUUUU ZZH
P 310741Z OCT 08
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 1336
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/USDOC WASHDC
RUEHLMC/MCC WASHDC
RUEHZO/AFRICAN UNION COLLECTIVE

UNCLAS SECTION 01 OF 02 DAKAR 001246

SENSITIVE

SIPDIS

STATE FOR EBB/IFD/ODF, A/EPS AND AF/W
TREASURY FOR RHALL AND DPETERS

E.O. 12958: N/A
TAGS: ECON EFIN EINV ETRD EAID SG
SUBJECT: SENEGAL'S ECONOMIC INDICATORS DROP AS THE GOVERNMENT
STRUGGLES TO OVERCOME CURRENT FISCAL CRISIS

REF: A) DAKAR 1190, B) DAKAR 0588

DAKAR 00001246 001.2 OF 002

¶1. (SBU) SUMMARY: Senegal continues to struggle to find the means to pay off its large stock of internal debt owed to private suppliers. The accumulated effects of financial indiscipline and adverse exogenous factors are negatively impacting projected GDP growth, inflation, and government deficits. The IMF is again on the scene, but some observers are critical of the Fund's passive attitude towards Senegal's current poor economic conditions. The two main employer associations have called for the government's immediate and urgent commitments to pay its internal debt as many local companies in the construction and service sectors are in dire straits. The government hopes for new financing, perhaps from France, and is looking at other measures to solve the 2008 budget deficit. We are not convinced that President Wade is willing to acknowledge the depth of Senegal fiscal crisis. We do not yet see a full commitment from the GOS for much-needed budget management reforms. END SUMMARY.

BAD NEWS ON ECONOMIC INDICATORS

¶2. (SBU) The large cumulative internal debt arrears, now estimated by MinFin officials at up to CFA 323 billion (USD 718 million), coupled with the lack of budget transparency -- which caused unauthorized and unjustified overspending of at least CFA 116 billion (USD 259 million) -- and some exogenous factors (world oil price increase) have greatly contributed to a deterioration of Senegal's economic performance, particularly in the formal sector.

¶3. (U) According to Senegal's National Statistics Agency, the country is experiencing a significant slowing in the services and construction sectors -- where companies are most affected by unpaid bills -- leading to a drop in projected GDP growth, now estimated at 3 percent in 2008 compared to 4.7 percent in 2007. Inflation could rise to 6.0 percent as the result of increase in energy and food prices. Senegal's external current account deficit is expected to reach 12 pct of GDP in 2008 compared to 10.5 percent of GDP in 2007. The overall fiscal deficit will rise to 7.0 percent after being at 5.9 percent of GDP in 2007.

¶4. (SBU) The lack of budget transparency is also reflected in the government's reluctance to submit corrective legislation for its FY 2008 budget ("loi de finance rectificative") despite a constitutional requirement to do so. The corrected budget should explain the current budget deficit and how the ledger will be balanced. It should also account, finally, for the proceeds from the September 2007 sale of Senegal's third telecommunication license to Sudatel, estimated at USD 200 million, and last summer's issuance of treasury bonds estimated at USD 154 million. Our contacts at the

Ministry of finance have been unable or unwilling to clearly explain how this revenue has been used.

¶5. (U) Given this gloomy, but realistic, outlook, our MinFin contacts have questioned the credibility of the IMF's fairly positive assessment of Senegal economic conditions (Ref A), arguing that "the IMF criticizes the government's financial difficulties in private, but presents an optimistic view in public."

ANGRY WORDS FROM THE EMPLOYERS' ASSOCIATIONS

¶6. (U) While it has been known for two years that the government has been carrying a significant stock of arrears owed to the private sector and, even though in July the IMF announced that this internal debt was much larger than previously estimated, the bills have not yet been paid. On October 13, both the National Confederation of Employers (CNP) and the National Council of Employers (CNES) publically expressed their anxiety over the difficult financial situation their members are facing as the result of the government's non-payment of its debts. Senegal's "Patronat" blasted the government's "passive, wait-and-see" attitude towards the damages it has already caused to private suppliers in the service and construction sectors. "We are agonizing and can no longer operate efficiently since the government has no apparent viability to pay its debts in the near future," noted Abdoul MBaye, CNP Vice President and President of the Bankers' Associations.

¶7. (U) Mansour Cama, the President of CNES called for a general dialogue with the government since the latter failed to keep its promise to pay the debt owed to private suppliers. He claimed that "several" companies affiliated to CNES are closing their businesses or selling their land, property, or houses in order to meet their financial commitments to their suppliers and banks. "We have lost our confidence and trust to the government." Cama added, "the economy is sick and many businesses in the construction and service

sectors are closing or reducing their workforce."

GOS LOOKS TO FRANCE AND ITS OWN ASSETS

¶8. (SBU) The GOS is reportedly in discussions with France for a large (perhaps Euro 300 million) loan (via the French Development Agency) to help cover the current arrears. However, MinFin contacts have noted that France has conditioned the assistance on the money being used primarily to pay off the GOS' debts to French firms. The GOS is apparently also continuing to explore the possible sale of its commercial holdings, including its shares in the telecommunications company Sonatel (Ref B), and sale of the Meriden President Hotel, with an eye to raising at least USD 952 million. The French loan is not yet a done deal, and the government has had difficulties for weeks in sorting out the possibilities of selling assets. President Wade has stated that he has given Finance Minister Abdoulaye Diop "full authority" to resolve the country's fiscal crisis.

THE IMF FACTOR

¶9. (SBU) IMF Missions are in Senegal the week of October 27, both to continue their investigation of the GOS's poor budget control and for a regularly-scheduled review of the country's Policy Support Instrument (PSI) Program. The two-pronged thrust of the PSI review will be to assure Senegal has an actionable plan for getting out of the current crisis and confirm commitments from the government to implement reforms leading to improved transparency, accountability, and management of the country's public finances. The IMF's end-of-mission assessment for the donors will be instrumental in determining whether or not budget support pledges and new loans are feasible before the end of the year. Any stonewalling by the GOS on the needed reforms could lead to a December IMF Board decision to suspend Senegal's PSI.

COMMENT

¶10. (SBU) There is a great deal of frustration in Senegal among donors, businesses, and the general population that a clear action

plan to solve the arrears has not yet been publicized. While ministry of finance officials are scrambling to make ends meet for Senegal's 2008 budget, President Wade appears to be carrying on with business as usual. In an October 28 meeting with the Ambassador and visiting MCC Vice President John Hewko, Wade stated that Senegal's internal debt was very sustainable, amounting to only CFA 130 billion (USD 289 million). This assertion does not match information provided by our Ministry of Finance contacts, nor does it reflect the massive arrears owed to the private sector.

¶11. (SBU) We believe the government is still counting on a big bailout from France, other donors, and perhaps commercial financing. That would help in the near term, but will only truly benefit the country if it doesn't diminish the momentum for reform.

BERNICAT